

**REPORT OF THE AUDIT OF THE  
FORMER CALLOWAY COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2006**



**CRIT LUALLEN  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
FORMER CALLOWAY COUNTY SHERIFF**

**For The Year Ended  
December 31, 2006**

The Auditor of Public Accounts has completed the former Calloway County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

Excess fees increased by \$47,288 from the prior year, resulting in excess fees of \$56,067 as of December 31, 2006. Revenues increased by \$13,130 from the prior year and expenditures decreased by \$34,158.

**Report Comments:**

- The Former Sheriff's Office Lacked An Adequate Segregation Of Duties
- Timesheets Should Have Been Signed By Employee And Immediate Supervisor

**Deposits:**

The former Sheriff's deposits as of October 31, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$485,134

The former Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Elkins, Calloway County Judge/Executive  
The Honorable Larry Roberts, Former Calloway County Sheriff  
The Honorable William E. Marcum, Calloway County Sheriff  
Members of the Calloway County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Calloway County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 18, 2008 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Larry Elkins, Calloway County Judge/Executive  
The Honorable Larry Roberts, Former Calloway County Sheriff  
The Honorable William E. Marcum, Calloway County Sheriff  
Members of the Calloway County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff's Office Lacked An Adequate Segregation Of Duties
- Timesheets Should Have Been Signed By Employee And Immediate Supervisor

This report is intended solely for the information and use of the former Sheriff and Fiscal Court of Calloway County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

April 18, 2008



CALLOWAY COUNTY  
 LARRY ROBERTS, FORMER SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

Federal Grants		\$	33,005
State - Kentucky Law Enforcement Foundation Program Fund			56,056
State Fees For Services:			
Finance and Administration Cabinet	\$	68,516	
Sheriff's Security Fees		<u>26,207</u>	94,723
Circuit Court Clerk:			
Fines and Fees Collected			13,323
Fiscal Court			318,882
County Clerk - Delinquent Taxes			2,673
Commission On Taxes Collected			374,691
Fees Collected For Services:			
Auto Inspections		20,090	
Serving Papers		35,381	
Carrying Concealed Deadly Weapon Permits		<u>7,743</u>	63,214
Other:			
School Security		56,563	
Transporting Prisoners		4,681	
10% Add-On Fees		39,846	
Advertising Cost/Sheriff's Fees		7,558	
Miscellaneous		<u>14,773</u>	123,421
Interest Earned			3,659
Borrowed Money:			
State Advancement			<u>213,000</u>
Total Revenues			1,296,647

The accompanying notes are an integral part of this financial statement.

CALLOWAY COUNTY  
 LARRY ROBERTS, FORMER SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2006  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$ 666,977	
Dispatch Salaries	109,425	\$ 776,402
Employee Benefits-		
Employer's Share Social Security	60,959	
Employer's Share Retirement - KLEFPF	6,035	66,994
Materials and Supplies-		
Equipment Maintenance and Repairs	28,715	
Dispatch Materials and Supplies	2,884	31,599
Auto Expense-		
Vehicle Maintenance and Repairs		34,715
Other Charges-		
Conventions and Travel	10,716	
Civil Process	1,139	
Postage	2,793	
Court Fees - County Portion	8,630	
Carrying Concealed Deadly Weapon Permits	4,110	
Miscellaneous	6,021	33,409
Debt Service:		
State Advancement	213,000	
Note - Principal	1,836	
Note - Interest	76	214,912
Total Expenditures		1,158,031
Net Revenues		138,616
Less: Statutory Maximum		79,247
Excess Fees		59,369
Less: Training Incentive Benefit		3,302
Excess Fees Due County for 2006		56,067
Payments to Fiscal Court - February 8, 2006	20,000	
July 15, 2006	20,000	
January 22, 2007	10,000	
September 12, 2007	5,989	55,989
Balance Due Fiscal Court at Completion of Audit		\$ 78

The accompanying notes are an integral part of this financial statement.

CALLOWAY COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CALLOWAY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of October 31, 2006, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement as follows:

- Uncollateralized and Uninsured \$485,134

CALLOWAY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 4. Drug Fund

The Calloway County Sheriff's office established a Drug Fund on February 14, 2000 with seizures received from various court cases. The beginning balance was \$8,682 as of January 1, 2006. Receipts were \$12,572 and disbursements were \$4,060, leaving an ending balance of \$17,194 as of December 31, 2006.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Elkins, Calloway County Judge/Executive  
The Honorable Larry Roberts, Former Calloway County Sheriff  
The Honorable William E. Marcum, Calloway County Sheriff  
Members of the Calloway County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Calloway County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated April 18, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Calloway County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Calloway County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Calloway County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Former Sheriff's Office Lacked An Adequate Segregation Of Duties
- Timesheets Should Have Been Signed By Employee and Immediate Supervisor

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider the following significant deficiency to be a material weakness:

- The Former Sheriff's Office Lacked An Adequate Segregation Of Duties

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Calloway County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Calloway County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

April 18, 2008

## COMMENTS AND RECOMMENDATIONS



CALLOWAY COUNTY  
LARRY ROBERTS, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

INTERNAL CONTROL – MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked An Adequate Segregation Of Duties

The former Sheriff's office lacked an adequate segregation of duties. The following compensating controls could have been implemented to offset this internal control weakness:

- The former Sheriff could have periodically compared a daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. The former Sheriff could have documented this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The former Sheriff could have periodically compared invoices to payments. The former Sheriff could have documented this by initialing the invoice.
- The former Sheriff could have periodically reconciled the bank statements to the receipts and disbursements ledgers for accuracy. Any differences should have been reconciled. The former Sheriff could have documented this by initialing the bank statement and ledgers for the month being reconciled.

*Former Sheriff's Response: No response.*

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

Timesheets Should Have Been Signed By Employee And Immediate Supervisor

While examining payroll for adequate supporting documentation, we noticed that the employee and his/her immediate supervisor were not always signing timesheets. In order to strengthen controls in this area, we recommend that all timesheets be signed by the employee and his/her immediate supervisor.

*Former Sheriff's Response: No response.*

